

Stocks bid on China stimulus while bonds flatten after strong US data

- **SNAPSHOT:** Equities up, Treasuries flatten, Crude down, Dollar down
- **REAR VIEW:** China stimulus; Initial Jobless Claims fall, Durable Goods beat, GDP unrevised at 3.0%; Mixed cease-fire reporting; SNB cuts 25bps as expected, disappointing 50bp bets; Fed speakers avoid mon pol comments; LUV boosts RASM guidance; DOJ probes SMCI; Strong 7yr auction
- **COMING UP:** **Data:** Japanese Tokyo CPI, Chinese Industrial Profit, French & Spanish CPI, German Unemployment Rate, EZ Sentiment, UoM Sentiment (Final). **Events:** Japan's ruling LDP party leadership election. **Speakers:** ECB's Lane, Cipollone; Fed's Collins, Kugler, Bowman. **Supply:** Australia, Italy

MARKET WRAP

Stocks closed in the green on Thursday but futures were well off the earlier highs with weakness seen once US trade got underway in the wake of strong US economic data. The overnight bid which kept stocks green was due to the China stimulus prospects, with China-related stocks surging; KWEB and FXI ETFs surged. Meanwhile, Materials and Technology were the outperforming sectors, with Materials buoyed by China while Tech was buoyed by stellar Micron (MU) earnings. Energy was the clear laggard as oil prices tumbled while defensives, Real Estate, Utilities and Staples also lagged. On US data, Jobless Claims fell despite an expected rise while the final Q2 GDP was unrevised at 3.0%. Durable Goods saw a notable beat which boosts growth prospects for Q3, following on from the strong Q2 (Atlanta Fed currently tracks Q3 growth at 2.9%, but is set to be updated on Friday). The data weighed on Treasuries with the curve flattening while issuance from Oracle (ORCL) also weighed, but T-notes settled off lows after a very strong 7yr auction. Oil prices were choppy but ultimately dropped amid mixed reports around an Israeli/Lebanon ceasefire, but as it stands there is no ceasefire agreement, nor a ground invasion. In FX, the Dollar was sold despite the strong data, giving back some of the rally seen on Wednesday, while antipodes outperformed on China stimulus. CHF also saw gains in the wake of the SNB, which cut rates as expected, but disappointed some looking for a 50bp move, it also lowered inflation forecasts but did little to suggest imminent FX intervention despite a strong Franc.

US

JOBLESS CLAIMS: Initial Claims, for the week ending 21st September, fell to 218k from 222k (revised up from 219k), despite expectations for a rise to 218k - a sign of a robust labour market, while the 4wk average fell to 224.75k from 228.25k (revised up from 227.5k). The continued claims, for the week ending 14th September, which coincides with the usual NFP survey week, rose to 1.834mln from 1.821mln (revised down from 1.829mln), but was slightly below the expected 1.838mln. On initial claims, the unadjusted number totalled 181k, falling 6k from the prior week, while seasonal factors had expected a decrease of 3k. For continued claims, the unadjusted claims totalled 1.634mln, falling 37k W/W, while the seasonal factors expected a decrease of 49k. Note, despite the drop Pantheon Macroeconomics suggests that an erroneous seasonal adjustment is likely to blame, with leading indicators like WARN and Challenger layoffs data suggesting the underlying layoffs trend is roughly flat.

DURABLE GOODS: Durable Goods were flat in August (prev. 9.9%), much above the expected -2.6% and outside the upper bound of the forecast range, -1.0%. The headline was dragged lower by the always-volatile transportation orders, which fell 0.8% after soaring almost 35% in July. Highlighting this, Boeing registered just 22 gross orders in August, down sharply from 72 in July. Ex-transport durable goods rose 0.5% (prev. -0.1%) exceeding the forecasted 0.1%, while ex-defence declined 0.2% (prev. 10.3%). Oxford Economics notes, core orders, which exclude defence and aircraft orders, which are a better gauge of future capital spending by companies, increased a touch more than expected after a dip in July. Meanwhile, shipments, which feed into GDP, fell in August although core shipments managed a small gain. Real equipment spending surged by more than 10% in Q2, and Oxford expects a smaller, but still solid increase in Q3. The consultancy concludes that interest-rate cuts by the Fed, growth in the digital economy, and the past boom in manufacturing construction all support their baseline forecast for solid growth in this category of business investment.

Q2 US GDP (FINAL EST.): The final GDP estimate for Q2 was unrevised at 3.0%, in line with expectations, and accelerating from the 1.6% growth seen in Q1. The BEA highlights that in the final estimate, upward revisions to private inventory investment and federal government spending were offset by downward revisions to nonresidential fixed investment, exports, consumer spending, and residential fixed investment. Imports, which are a subtraction in the calculation of GDP, also increased. The GDP sales number was revised down to 1.9% from 2.2%, while consumer spending was revised down to 2.8% from 2.9%. The deflator was unrevised as expected at 2.5%. On prices, Core PCE was unrevised at 2.89%, with the headline unrevised at 2.5%. The supercore metrics, saw PCE Ex food, energy and housing unrevised at 2.3%, while PCE services ex-energy and gooding was revised to 3.0% from 3.1%. The report is a welcome one but is deemed stale given it covers Apr-June, but nonetheless shows the progress made on inflation whilst maintaining a robust economy in Q2. Note, the Atlanta Fed Q3 GDP tracker currently is tracking growth at 2.9%, suggesting economic momentum has continued into Q3. Analysts at Oxford Economics note that "The revisions only strengthen our conviction that the US economy will continue to expand at a decent pace over the coming year, which suggests labor market conditions are unlikely to deteriorate markedly from here. We think that will push Fed officials toward a more gradual series of interest rate cuts in the quarters ahead."

PENDING HOME SALES: Pending Home sales rose by 0.6%, missing the expected 1.0% rise, taking the index to 70.6 in August from 70.2 in July. According to NAR Chief Economist Lawrence Yun, "A slight upward turn reflects a modest improvement in housing affordability, primarily because mortgage rates descended to 6.5% in August. However, contract signings remain near cyclical lows even as home prices keep marching to new record highs."

EM

BANXICO REVIEW: As expected, the Banxico cut rates by 25bps taking rates to 10.50%. The decision was not unanimous however with Heath once again voting to keep rates unchanged in a 4-1 vote split. However, Espinosa has now joined the cut camp after voting to keep rates on hold at the prior meeting. Elsewhere, the statement saw a slight adjustment to guidance, where it says that "Looking ahead, the Board expects that the inflationary environment will allow further reference rate adjustments", it had previously said that it "may allow" further adjustments. Meanwhile, inflation forecasts were largely left unchanged throughout the forecast horizon and it still sees inflation returning to

target in Q4 25. Although the near-term headline inflation forecasts (Q324 and Q4234) were revised to 5.1% (prev. 5.2%) and 4.3% (prev. 4.4%), while for core, the Q4 24 inflation was revised down to 3.8% (prev. 3.9%), with Q1 25 revised down to 3.5% (prev. 3.6%). Banxico did warn that it still judges inflation risks are still biased to the upside, however.

FIXED INCOME

T-NOTE (Z4) FUTURES SETTLED 4+ TICKS LOWER AT 114-13

T-notes flatten after strong economic data with front-end issuance from Oracle weighing; strong 7-year auction took T-notes off lows. At settlement, 2s +6.8bps at 3.621%, 3s +5.6bps at 3.541%, 5s +3.3bps at 3.559%, 7s +1.7bps at 3.657%, 10s +0.8bps at 3.789%, 20s -0.6bps at 4.175%, 30s -1.2bps at 4.123%.

INFLATION BREAKEVENS: 5yr BEI -1.6bps at 2.199%, 10yr BEI -1.3bps at 2.158%, 30yr BEI -0.6bps at 2.182%.

THE DAY: T-notes meandered overnight despite the rally in equity futures on China stimulus prospects. There was a slight downside in the European morning, led lower by OAT's on reports France will ask Brussels for a two-year delay in reaching its 3% of GDP deficit target. Nonetheless, the move in T-notes gradually reversed to peak at 114-34 ahead of the US data. A surprise drop in initial jobless claims showed signs of a robust labour market and saw T-notes tumble to an interim low of 114-11. Alongside jobless claims was the final release of Q2 GDP, which confirmed growth at 3%, with PCE unrevised. Meanwhile, Durable Goods also beat expectations. With the Fed's focus shifting to the labour market, the drop in claims sends a signal of a robust labour market but participants will be casting attention to next week's NFP report for a more up-to-date picture of the US labour situation with money markets almost fully pricing in at least another 50bp rate cut from the FOMC. The "plethora of Fed speak" expected today turned out to be a damp squib, with many either repeating commentary or not talking on monetary policy. T-notes had slightly pared the post jobless claims move to c 114-19 before better selling resumed with T-notes bottoming out at 114-07 with participants turning their eyes to the 7yr auction. Which ultimately came in strong, and helped put a floor in T-notes for the session. On Corporate supply, adding to the chunky Oracle (ORCL) deal on Wednesday, Broadcom (AVGO) also announced a USD 5bln 4-parter; 3yr/long, 5yr/long, 7 and 10yr notes.

7YR: Overall a strong 7yr auction, the high yield of 3.668% stopped through the when issued by 0.7bps, the largest stop through in the 7yr since March, a stronger sign of demand than the prior 0.9bp tail and six auction average for a tail of 0.1bps. The Bid-to-Cover of 2.63x was above the prior 2.5x and average 2.54x, while the breakdown was also encouraging with a notable pick up in direct demand. Direct bidders took 20.3% of the supply, rising from the prior 11.2% and average of 16.8%. Indirect demand declined to 70.8% from 75.1%, but still remained above the average 70.1%.

STIRS:

- **Market Implied Fed Rate Cut Pricing: November 38bps (prev. 40bps D/D), December 74bps (prev. 78bps), January 105bps (prev. 111bps).**
- US to sell USD 79bln in 13-wk bills and USD 72bln in 26-wk bills on September 30th; to sell USD 48bln in 52-wk bills and USD 70bln in 42day CMBs on October 1st; all to settle Oct. 3rd
- NY Fed RRP Op demand at USD 525bln (prev. 416bln) across 70 counterparties (prev. 72)
- SOFR at 4.84% (prev. 4.84%), volumes at USD 2.133tln (prev. 2.171tln).
- EFFR at 4.83% (prev. 4.83%), volumes at USD 103bln (prev. 94bln).

CRUDE

WTI (X4) SETTLED USD 2.02 LOWER AT 67.67/BBL; BRENT (X4) SETTLED USD 1.86 LOWER AT 71.60/BBL

The crude complex was ultimately lower on mixed reports around a Israel/Lebanon ceasefire. Triggering this in the European morning were reports suggesting that senior US officials anticipate a ceasefire deal along the Israel-Lebanon border "in the coming hours" after the US and France have proposed a 21-day ceasefire for both the Lebanon-Israel border and Gaza. Reports also added that Israel and Hezbollah are discussing the proposal and will announce their responses soon, however, the Israeli PM's office later clarified that the news about a ceasefire is incorrect. With geopolitics firmly in focus, later reports from a senior Western diplomat told The Times of Israel that Israel and Lebanon privately gave mediators their support for a 21-day ceasefire before it was announced in a joint statement led by the US and France last night. However, after they became public PM Netanyahu quickly distanced himself from the proposal, saying Israel has yet to respond and that the IDF would continue striking Hezbollah with full force. For the record, WTI and Brent saw lows of USD 66.95/bbl and 70.72/bbl, respectively, against earlier highs of 70.01 and 73.80/bbl.

OPEC: According to Reuters sources, OPEC+ is reportedly currently focused on addressing overproduction by some members, while later in the session multiple OPEC+ sources reportedly told Argus that neither Saudi Arabia nor the wider OPEC+ group have any specific target for oil prices, and no member of the producers' alliance is about to abandon output discipline in favour of chasing market share.

EQUITIES

CLOSES: SPX +0.4% at 5,745, NDX +0.72% at 20,115, DJIA +0.62% at 42,175, RUT +0.57% at 2,210

SECTORS: Energy -2.00%, Real Estate -1.05%, Utilities -0.72%, Consumer Staples -0.04%, Consumer Discretionary +0.14%, Communication Services +0.31%, Health +0.32%, Industrials +0.50%, Financials +0.54%, Technology +0.89%, Materials +1.97%.

EUROPEAN CLOSES: DAX: +1.59% at 19,220, FTSE 100: +0.20% at 8,285, CAC 40: +2.33% at 7,742, Euro Stoxx 50: +2.30% at 5,030, AEX: +0.62% at 912, IBEX 35: +1.36% at 11,953, FTSE MIB: +1.68% at 34,409, SMI: +0.41% at 12,198, PSI: -0.33% at 6,771.

STOCK SPECIFICS

- **Micron Technology (MU):** Reported top and bottom-line beats in Q4, with next quarter guidance above expectations. Also upgraded its outlook for FY24 DRAM demand growth
- **Accenture (ACN):** Adj. EPS and revenue beat, in addition to raising its quarterly dividend by 15% and approving an additional USD 4bln share buyback programme. Looking ahead, revenue guidance surpassed Wall St. consensus.
- **CarMax (KMX):** Increased its provision for loan losses, while revenues and profit on wholesale vehicles underwhelmed.
- **Southwest Airlines (LUV):** Announced a new USD 2.5bln buyback programme and now expects Q3 RASM to boost 2-3% Y/Y.
- **NRG Energy (NRG):** Raised FY24 adj. EBITDA and FCF view.
- **Starbucks (SBUX):** Upgraded at Bernstein as it expects the operational focus to result in re-acceleration of traffic-driven comparable sales growth, and in return to pre-Covid operating margin levels of 18.5%.
- **Jefferies Financial Group (JEF):** Q3 top-and bottom-line missed.

- **Meta Platforms (META):** Received multiple PT raises after announcing a new-entry level VR headset and a prototype of any AR smart glass.
- **Wells Fargo (WFC)** - To send the Fed crucial review for lifting of asset cap, according to Bloomberg sources.
- **Super Micro Computer (SMCI)** - DoJ reportedly probed Super Micro Computer, following a critical report by an activist short-selling firm, according to people familiar with the matter, WSJ reports. "The probe is at an early stage, the people said. A prosecutor at the U.S. attorney's office in San Francisco recently has contacted people potentially holding relevant information."

US FX WRAP

The Dollar pared a large part of Wednesday's gains, which were attributed to a mixture of amplified geopolitics, and possible quarterly rebalancing kicking in, and short squeezing, particularly in the USD/JPY, as believed by ING, (reinforced by Credit AG's model of USD/JPY having the strongest sell signal). Nonetheless, the day saw Initial Jobless Claims fall for a third straight week to a 4-month low of 218k, while Q2 GDP was unrevised at 3.0% as expected while Durable Goods saw a notable beat. Despite the strong data, the buck failed to benefit with upside in the Euro and risk on trade weighing on the buck. There was mixed reporting regarding Israel/Lebanon, with initial reports of a ceasefire being denied by both sides. FedSpeak was anticlimactic on the day, with all six scheduled speakers not commenting on monetary policy/economy, or repeating their previous remarks. Looking ahead, Core PCE (exp. 0.2% M/M) lies as the next key risk ahead, amidst continued FedSpeak (Collins, Kugler, Bowman).

EUR/USD ended the day higher, shrugging off earlier weakness fuelled by Reuters sources, saying the ECB rate decision in October is "wide-open", with doves fighting for a cut following weak data. October pricing for the ECB sits at c. 77% for a 25bps rate cut (prev. 28% after Sept meeting). Besides the Reuters reports, newsflow was fairly light with German GfK Consumer Sentiment (Oct) being better than anticipated, supported by increases in income expectations and the propensity to buy. Meanwhile, ECB's Lagarde remarks were not directly related to monetary policy. The pair finished around its session high of 1.1189, approaching Wednesday's YTD high of 1.1213 with dollar weakness supporting the move.

G10 FX all gained against the greenback, with outperformance led by the Aussie, and Kiwi on China stimulus, while the JPY and CAD lagged with modest upside. AUD/USD is set to close at highs not seen since early 2023; NZD/USD finished off peaks of 0.6331, with the December 23 high of 0.6369 next in view, and the 200 DMA(0.6451) going onwards. Cable, like the Aussie, is on track to close around multi-year highs, of roughly 1.3434 (last visited on Feb 22).

The Franc saw volatile trade after the SNB cut its Policy Rate by 25bps to 1% (as expected), but ultimately ended the day stronger versus the Euro and Dollar as bets on 50bps were unwound. Inflation forecasts in 24, 25, and 26 were revised down, citing a strong CHF, and lower oil and electricity prices, whereas growth forecasts were left unchanged. The Central Bank repeated they are prepared to intervene in the FX market as necessary and noted that further cuts in the SNB policy rate may become necessary in the coming quarters to ensure price stability over the medium term. USD/CHF sits just above troughs of 0.8453, while EUR/CHF saw considerably less downside, albeit, ended below the 50DMA (0.9461). Looking ahead, pricing for the SNB December meeting puts approx 13% chance of a 25bps rate cut.

EMFX performed mostly to the upside when compared to the Dollar, as highlighted by gains in the BRL, KRW, COP, ZAR, and ILS. On the other hand, TRY, RUB, and MXN underperformed, witnessing a slight downside. Banxico's rate decision was the main event in the space, where the Central Bank cut by 25bps to 10.5%. The vote was 4-1 in favour, and commentary from the board was on the dovish side; "Looking ahead, the Board expects that the inflationary environment will allow further reference rate adjustments" (prev. said may allow). This was further reiterated in the downward revisions to the inflation projects in 2024 and 2025.

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